

Briefing note

Paris high streets remain "In Vogue"

March 2014

Consumer demand supported by rising numbers of international tourists

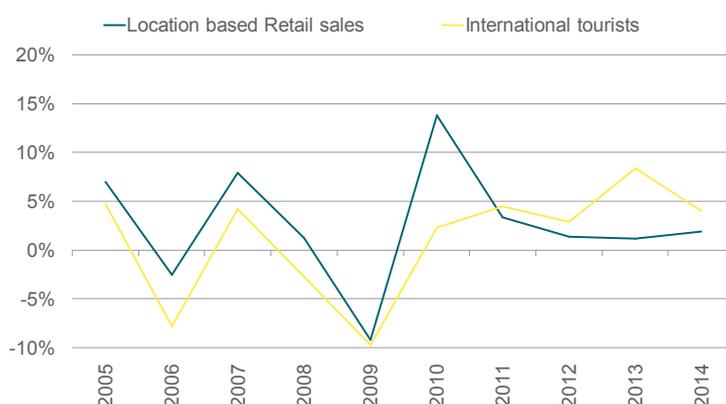
Improving economic growth since the beginning of 2013 has supported positive consumer confidence. According to the first estimation of the National Statistical Institute (INSEE), in Q4 2013 private consumption increased by 0.5% in seasonally-adjusted terms and marked the highest reading in nearly two years. In January 2014, the consumer sentiment index inched up to 86 points and reached the highest level since February 2013. However domestic spending remains relatively weak and retail sales in the high streets is mainly supported by international tourism.

Last year France received 1.4 million Chinese visitors and about 1.8 million Chinese tourists are expected in 2014. Chinese tourists are buying one fourth of duty-free goods in the world according to Global Blue. They are the biggest buyers of expensive items in the world, accounting

for some 29% of purchases last year. According to FT China Confidential France is the favourite country to buy luxury goods before the US and Singapore. On average they spend €5,400 per trip. 47% of this amount is spent directly in shopping.

Unsurprisingly prime Parisian high street remains successful amongst retailers. Last year the number of new high street units increased by 9.2% compared to 2012, while the share of international retailers moved up from 27% to 39%. Of those, retailers from North America have been the most expansive accounting for 8.4% of new openings. This is followed by 6.8% from the UK, and 6.3% from Italy. Additionally, the French capital is catching retailers' interest from a growing variety of countries, 21 in 2013 against 18 in 2012 and 11 in 2011. Paris has seen nearly twice as many new international retailers opening their first stores in the city in 2013 than in 2012.

GRAPH 1
Paris - impact of international tourist arrivals on retail sales



Graph source: INSEE / Oxford Economics

“Concentration of retailer demand for the traditional prime high streets has put upward pressure on prime rents”

Christophe Gouny, Savills Head of Retail

Luxury prevailed and put upward pressure on prime rents

The luxury goods industry boosted the high street market evidenced by the significant number of new openings, which increased by threefold between 2012 and 2013. To name a few; Dior, Chanel, Fendi, Versace, Moncler, Berlutti, and Saint Laurent Paris have all opened new units in the most famous high streets of the French capital. Luxury watchmakers have also been particularly present. We note the arrival in Paris of A. Lange & Söhne, Breitling and Vacheron-Constantin all in rue de la Paix, Omega, Cartier and the landmark Bucherer in bd des Capucines, a new opening of TAG Heur also in bd des Capucines and another one opened on Champs Elysées.

Strong retailer demand in the segment did not trigger an expansion of the traditional luxury district into new locations. However, fierce competition for the same prime high streets have put upward pressure on prime rents. Zone A achieved in Champs Elysées reached €18,000 per sq m/year in Q1 2014, which reflects an increase of 12.5% over the same quarter last year. In rue du Faubourg Saint Honoré, rue Saint Honoré and avenue Montaigne the current prime rent remained at €10,000 per sq m/year. However some deals recently signed at significantly higher rents suggest an upward pressure on rental values in these famous shopping streets.

→ **Food and cosmetics increased**

The food sector has also been flourishing, notably driven by the recent appetite from international fast food retailers. Following the opening of two first stores in 2012, Pret-a-Manger opened another unit in 2013 on Boulevard Montmartre (9th district) and their flagship is planned to open this year in rue Duphot. The traditional British fish and chips also crossed the channel last year with the opening of The Sunken Chip rue des Vinaigriers (10th district) and Churchills fish and chips is also actively looking to expand in France.

US retailers are particularly active in the sector. Following the opening in October of a Bruegger's Bagels in rue de Rennes, the brands should open a second store in Paris in 2014. Burger lovers celebrated the return of the Burger King brand with the opening last December of a restaurant in the Saint Lazare train station (9th district). Additionally, it is said that the leader premium burger Steak'n Shake will also arrive in France this year with a first store in Cannes. The French struck back by opening a second Bioburger store this year on rue de la Victoire (9th district).

Moving on to sweets and deserts international retailers aimed at prime locations, including notably the opening of the concept stores: Kusmi tea on Champs Elysées (8th district), Pouchkine rue des Francs Bourgeois (3rd district) and Lindt rue Scribe (9th district). On the other

hand, the famous macaroons' brand, La Durée reduced its historical flagship store on rue Royale (1st district) to launch its new cosmetics brand "Les Merveilleuses".

Talking of which, high-end cosmetics brands have also multiplied in 2013, they nearly doubled compared to the 2012. Following the opening of MAC on the Champs Elysées at the end of 2012, Caudalie opened its first store in 2013 in rue des Francs Bourgeois, Roger & Gallet rue du Faubourg Saint Honoré, Kiel's opened two new stores rue Saint Honoré and rue du Faubourg Saint Antoine and Chanel opened a store fully dedicated to cosmetics and perfumes on rue Saint Honoré. Finally Dior "cosmetics" is also testing the market segment through its newly opened pop up unit located rue Saint Honoré.

The pop up store concept remained successful. To name a few, Haagen Daaz opened in the Marais area, Converse opened two pop up units rue Montorgeuil and rue des Archives (4th district). Additionally Happy Sock opened two stores during Christmas in rue Debelleye (3rd district) and rue du Roi de Sicile (4th district). The concept is growing predominantly in department stores and shopping malls where it is easier and quicker to settle (Urban Outfitters and Top Shop in the Galeries Lafayette, Uniqlo in the BHV and more recently Toy's R Us in gare Saint Lazare over the Christmas period). ■

OUTLOOK

Tourism, a key driver for Paris high street retail

■ Forecasts to 2020 suggest the number of outbound Chinese tourists is expected to double to 200m and their spending will triple to USD 780bn. Chinese visitor numbers to France could increase to 3.9m. We estimate that their retail expenditure in the country will grow to USD 9.1bn by 2020 (from an estimated USD 2.3bn last year).

■ Both domestic and international retailer demand will continue to grow in the 2014 and beyond. Some forthcoming openings include Tiffany's & Co, Qela, Ferragamo, Panerai, Maliparmi, Apple to name a few.

■ Paris will remain the main magnet for international retailers aiming at entering the French market. However, the wealthy Riviera area will continue to see first time international luxury brands.

■ Upward pressure on rents will continue in the prime segment whereas secondary rents should remain stable.

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 "Due to its international tourist appeal the French capital will remain the main gateway for international retailers to enter the country." Lydia Brissy, Savills European Research

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